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ABSTRACT

Income replacement and reemployment programs in Michigan and its neighboring states were examined in the context of recent changes in federal policy regarding compensation and services for individuals who have lost their jobs or sustained job-related injuries. The analysis focused primarily on the following programs: (1) Unemployment Insurance (UI); (2) Workers' Compensation (WC); and (3) the cluster of reemployment and training programs that, since 1998, have come under the Workforce Investment Act. The analysis established that UI, Michigan Works!, and WC are unique among Michigan's programs because they replace lost earnings and deliver services to workers on a regular basis, whereas other programs intended to improve workers' well-being do so solely through regulation. UI and Michigan Works! are all becoming increasing contentious in the wake of welfare reform and the first recession in a decade. Although WC has been relatively free of controversy during the past decade, it, too, may be under increasing pressure as medical costs resume their rise. Despite the recent arguments regarding the generosity of their benefits and the appropriate extent of training for disadvantaged workers, UI, Michigan Works!, and WC have all gained widespread acceptance as essential to efficient funding of the labor market. (Thirteen figures/tables are included. The bibliography lists 57 references.) (MN)

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Income Replacement and Reemployment Programs in Michigan and Neighboring States

Stephen A. Woodbury

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Income Replacement and Reemployment Programs in Michigan and Neighboring States

Stephen A. Woodbury

October 2002

Governments in every developed industrial economy administer programs that partially replace the earnings of workers who suffer job loss or on-the-job injury. In addition, governments administer programs to help job losers gain reemployment, either through direct job placement (for those who are job-ready) or through retraining (for those who are not).

This chapter describes and discusses current policy issues surrounding the main social insurance and reemployment programs in Michigan: Unemployment Insurance (UI), which partially replaces lost earnings following loss of a job; Workers' Compensation (WC), which pays for medical treatment, vocational rehabilitation, and lost earnings following a work-related injury or illness; and the cluster of reemployment and training programs that, since 1998, has come under the Workforce Investment Act (WIA). In addition to describing these programs, a main goal of the chapter is to offer a critical view of Michigan's programs by comparing them with corresponding programs in neighboring states.

Discussion of these three programs could hardly be more timely. UI has come under attack for a range of alleged failings, and the Michigan legislature passed a bill in April 2002 that increased weekly benefits, lengthened benefit durations, and tightened the eligibility requirements for UI in Michigan. Also, the Workforce Investment Act of 1998 has resulted in significant changes in reemployment services nationwide as well as in Michigan, and there is continuing debate over the effectiveness of the "work first" approach that WIA entails. Finally, WC has gone through cycles in which dramatic cost increases have been followed by efforts at cost containment. Michigan's WC law has seen only minor changes during the last 20 years because reforms instituted in the early 1980s appear to have kept both medical and wage replacement costs of WC in Michigan in line with those in other states. However, health care costs are

projected to resume their growth in the near future, which would directly affect WC costs and put increased pressure on the WC system.

UNEMPLOYMENT INSURANCE (UI)

Since 1936, UI has paid weekly benefits for a limited period of time to workers who have lost their job through no fault of their own and are actively seeking work. The UI system was established by the Social Security Act of 1935 as a federal-state system; that is, each state administers its own UI program, setting its own benefit levels and tax rates subject only to broad federal guidelines and oversight by the U.S. Department of Labor. Since April, 2002, UI has been administered in Michigan by the Bureau of Unemployment & Workers' Compensation (under the Department of Consumer and Industry Services), which consolidates two former agencies: the Unemployment Agency and the Bureau of Workers' Disability Compensation.

Although UI is taken for granted as an economic institution, its objectives have been debated and its effectiveness and operations criticized almost continuously from its beginnings. As Haber and Murray (1966, p. xix) noted, "Labor criticizes the program as inadequate. Management is also critical, observing that many laws are too loose in their eligibility and disqualification provisions." It is no different today. In March 2002, the National Employment Law Project (NELP) criticized UI as "rife with shortcomings and inequities," the most important of which "involves the difficulty many workers face in even qualifying for benefits" (Emsellem et al. 2002). On the other hand, Strategic Services on Unemployment and Workers' Compensation (widely known as UWC, a business membership and advocacy group) submitted Congressional testimony in June 2002 stating that "Employers who actively manage their UI liabilities see UI overpayments and fraud as a serious problem..." (Oxfeld 2000).

This section attempts to sort out these claims and counterclaims by describing first the

eligibility requirements and benefit levels of Michigan's UI program, and then the financing of the program. Policy issues are discussed in turn, and comparisons are drawn to neighboring states. The discussion provides a background for examining the current controversy over goals of the UI system—that is, whether it should serve mainly as an income replacement program for workers with a strong attachment to the labor force, or whether it should play a more aggressive role in fighting poverty by transferring income from higher-wage to lower-wage workers.

Eligibility and Benefits

To be eligible for UI benefits in any state, an unemployed worker must satisfy two broad sets of criteria. The first are referred to as "monetary eligibility" criteria and pertain to a worker's earnings history. The second are "nonmonetary eligibility" criteria and pertain to the conditions that led a claimant to leave the last employer and whether the claimant is now looking for work.[1]

Monetary eligibility and weekly benefits. In Michigan, as in other states, a worker's monetary eligibility is based on earnings in a so-called "base period," which is conventionally defined as the first four of the five completed quarters before the claim is filed. The quarter of the base period in which earnings were highest is referred to as the "high quarter." To be eligible for benefits in Michigan, a worker must have high-quarter earnings of at least $2,146 and total base-period earnings at least 1.5 times high-quarter earnings (or at least $3,219).

For workers who meet these criteria, the weekly benefit amount is calculated as 4.1 percent of high-quarter earnings, up to a maximum of $362 per week. For example, a worker with high-quarter earnings of $2,146 (and base period earnings at least $3,219) would receive the minimum weekly benefit of $88. A worker with high-quarter earnings of $8,829 or more (and base period earnings at least $13,244) would receive the maximum of $362. (Before changes in the Michigan UI law that were passed in April 2002, the maximum weekly benefit amount was

[1] Details can be found at the Michigan Bureau of Workers' & Unemployment Compensation website <www.michigan.gov/bwuc>. I am grateful to Robin Norton of the Bureau for clarifying several points. Useful general references on UI include Advisory Council on Unemployment Compensation (1994, 1995, 1996), Blaustein (1993), and O'Leary and Wandner (1997). See also U.S. Department of Labor (2002a) and UWC (2002).

$300.)

This basic method of calculating weekly benefits—that is, multiplying high-quarter earnings (or earnings in the two highest quarters) by some factor—is used by all but 9 states. Note that Michigan's 4.1 percent factor results in a weekly benefit slightly greater than 50 percent of average high-quarter earnings. [Multiplying high-quarter earnings by 1/26 (3.85 percent) would yield a replacement rate of exactly 50 percent because a quarter has 13 weeks.]

Workers with dependents receive a "dependents' allowance" of $6 per dependent (for up to 5 dependents, or $30) per week. However, the $362 maximum cannot be exceeded, so the dependents' allowance increases the weekly benefit only of workers who are below this maximum. Michigan is one of 12 states that has a dependents' allowance.

In Michigan, the minimum potential duration of benefits is 15.5 weeks (14 weeks before April 2002), and the maximum is 26 weeks. Within these bounds, potential benefit duration is determined by the following formula: Multiply total base-period earnings by a factor (43 percent in Michigan's case) and divide the result by the weekly benefit amount. For a worker who barely qualifies for benefits, this calculation yields a potential benefit duration of 15.5 weeks ($0.43 \times \$3{,}219 / \$88 = 15.7$, which is rounded down to the nearest half-week). For a worker who just qualifies for the *maximum* weekly benefit, this calculation also yields a benefit duration of 15.5 weeks ($0.43 \times \$13{,}244 / \$362 = 15.7$, again rounded down).

This rather arcane formula for potential duration of benefits does have a rationale. The idea is that the potential duration of benefits should be greater for workers whose earnings are more stable, as measured by the ratio of base-period earnings to high-quarter earnings. For a worker with the same earnings in all four base-period quarters, this ratio is 4; for a worker with

highly variable earnings, the ratio could be as low as 1.[2]

Under these monetary eligibility criteria and benefit levels, a worker earning the minimum wage of $5.15 for 417 hours in one quarter (that is, full-time for about 11 weeks) and for 209 hours in any other base-period quarter (that is, full-time for about 5 weeks) would be eligible for the minimum weekly benefit of $88 for 15.5 weeks, or up to $1,364. That is, earnings of $3,219 during 16 weeks of employment would yield benefits totaling as much as $1,364 over a 15.5-week spell of unemployment.

How does a relatively high-wage worker fare under the program? A worker earning an hourly wage of $17.31 for 40 hours a week over 32 weeks would be eligible for the maximum weekly benefit of $362 for 26 weeks. That is, earnings of $22,157 over 32 weeks of employment would yield benefits totaling as much as $9,912 over a 26-week spell of unemployment. (This example is chosen to show the lowest wage rate and hours worked that would yield the maximum benefit amount and maximum duration of benefits.)

Table 1 summarizes several aspects of UI benefits in Michigan and neighboring states. Michigan's minimum weekly benefit amount is somewhat higher than in neighboring states, but the base period earnings required to qualify for those benefits are also higher. (For Michigan, the figures in parentheses show the increases that took effect following the April 2002 amendments to the Michigan UI law.)

Before April 2002, Michigan's maximum weekly benefit amount was the lowest in the region; it now exceeds Indiana's and Wisconsin's, and is in the midrange of Illinois's and Ohio's

[2] To see this, write the potential duration formula stated in the text as follows:

$$D_{pot} = \min [aBPE/WBA; 26],$$

where a denotes the factor by which base-period earnings are multiplied (0.43 in Michigan's case), BPE denotes base-period earnings, and WBA denotes the weekly benefit amount. Next, recall that BPE depends on high-quarter earnings (HQE):

$$WBA = bHQE,$$

where b is the factor by which HQE is multiplied to give the weekly benefit (0.041 for Michigan). Substituting this latter into the potential duration equation gives:

$$D_{pot} = \min [aBPE/bHQE; 26],$$

which makes clear the relationship between the potential duration of benefits and the ratio of BPE to HQE.

maxima (these ranges exist because Illinois and Ohio have dependents allowances, which vary with the number of dependents and can increase the maximum). The base-period earnings required to qualify for the maximum benefit in Michigan are somewhat higher (post-April 2002) than in Ohio and Wisconsin, but considerably lower than in Illinois and Indiana. Note that Illinois is the only "uniform duration" state in the region—any worker who qualifies for benefits in Illinois is potentially eligible for up to 26 weeks of benefits.

Whereas the first six rows of Table 1 summarize statutory UI benefit provisions, the lower seven rows show data on UI benefits actually paid. Michigan's average weekly benefit amount was lower than that in Illinois but similar to that in the other states shown. However, Michigan's average weekly replacement rate—the ratio of average weekly UI benefits to average weekly earnings—was the lowest in the region. This occurred both because Michigan's maximum weekly benefit amount was the lowest in the region and because wages are higher in Michigan than in any neighboring state except Illinois.

Thirty-four states, including Illinois and Ohio, automatically adjust the maximum benefit amount by linking it to the state's average weekly wage. A typical approach is to set the maximum at between 50 and 60 percent of the average weekly wage. (Illinois, for example, sets it at 50 percent.) By adopting such an approach, Michigan could prevent UI replacement rates from slipping well below those in neighboring states, as they did before the April 2002 amendments. The practice could also avoid repeated political wrangling over the maximum benefit amount, as occurred in early 2002.

Both the average benefits per unemployment spell and the average duration of benefit spells are similar in Michigan and three of its neighboring states; the exception is Illinois, where the 26-week uniform duration of benefits leads to relatively high benefits per spell and spell durations. About 28 percent of UI recipients in Michigan exhausted their benefits in early

2002—higher than in Wisconsin, similar to Ohio, and well below Illinois and Indiana. (In Illinois, relatively high weekly benefits combine with long potential durations and what appears to be relatively lax enforcement of the work search test to give a relatively high exhaustion rate.) Exhaustion rates have sometimes been used as a very rough gauge of the adequacy of the potential duration of benefits.

Finally, Michigan's UI recipiency rate—the percentage of unemployed workers receiving UI benefits—was over 57 percent in early 2002, well above the national average of 48 percent and higher than most of the states neighboring Michigan. The determinants of UI recipiency are only partially understood (Vroman 2001), but Michigan's relatively high rate is usually attributed to the relatively high proportion of workers who are union members and consequently receive assistance in claiming UI benefits. The number of workers receiving UI varies greatly over the business cycle—in 1999, only 323,015 Michigan workers received UI (a 10-year low), whereas by 2001, the number had jumped to 513,277.

Alternative methods of qualifying. Although clear from an administrative standpoint, the monetary eligibility criteria described above can create much confusion. The definition of the base period is a key problem. For example, for a claim filed on June 29, 2003, the base period would be the four calendar quarters of 2002 (because the second quarter of 2003 is not yet complete). For a claim filed two days later, on July 1, 2003, the base period would be the last three quarters of 2002 plus the first quarter of 2003. Accordingly, there is always a lag (often considerable) between the base period and the timing of a UI claim, and this lag can result in apparent inequities. For example, a former welfare recipient who started a job in April, 2001, was laid off in the wake of September 11, 2001, and claimed benefits sometime before September 30, 2001, would have a base period that included the last three quarters of 2000 and the first quarter of 2001. None of her roughly 6 months of earnings would be included in that base period, and she

would be ineligible for UI benefits. Only by waiting until January 1, 2002, would she have two quarters of earnings in a conventionally defined base period and (potentially) satisfy the monetary eligibility criteria for UI.

To mitigate the delays that arise under the conventional base period, many states (including Michigan) define an "alternative base period," which may be used to make benefits available to workers who would otherwise be ineligible. Michigan's alternative base period is the last four completed quarters before the claim is filed (rather than the first four of the last five completed quarters). This works to the advantage of workers like the former welfare recipient mentioned in the preceding paragraph. Under the alternative base period, the worker would have a base period that included all of her roughly six months of earnings (April through September) as of October 1, 2001, and could start receiving benefits. (For a detailed treatment of the alternative base period, see Vroman 1995.)

Before 2000, Michigan had no need for an alternative base period because the base period was defined as the 52 weeks immediately preceding the UI claim. Under this old system, the UI agency needed first to ask a UI claimant to list his or her employers from the year before the claim and then to contact each of these employers to request a weekly earnings history of the worker. This "wage request" system was cumbersome and time-consuming, although it allowed Michigan to avoid the lag problem discussed above.

In 2000, Michigan moved to the existing "wage records" system, under which every covered employer in Michigan files a quarterly report (usually digital) stating the wages paid to every worker employed during that quarter. The advantage of the wage records system is that when a worker claims UI benefits, the Bureau of Unemployment & Workers' Compensation simply accesses preexisting wage records to determine the worker's monetary eligibility and benefit amount. (The system also allows the Bureau to determine the worker's employers during

The nonmonetary eligibility criteria appear straightforward, but they are difficult to implement and enforce. Consider first the separation criteria. Should all base-period separations be considered in applying the separation criteria, or only the most recent? Michigan considers all base-period separations, and several states—including Illinois and Ohio—consider separations in addition to the most recent under some circumstances (see Table 2). What reasons should be included as "good causes" for quitting a job voluntarily? In Michigan, as in most states, good cause is restricted to issues directly related to work or the employer, but two additional reasons are allowed in Michigan—leaving an unsuitable job within 60 days and leaving a job to accept another job that does not materialize. Some states include additional reasons; for example, leaving a job due to sexual harassment is considered good cause in eight states, including Illinois and Wisconsin, but not Michigan. As is suggested by Table 2 ("additional reasons allowed"), Michigan is somewhat less permissive than neighboring states, particularly Wisconsin, in allowing additional "good causes" (for details, see UWC 2002).

In Michigan, a claimant who quits voluntarily or is discharged for cause cannot receive UI benefits for the duration of the current unemployment spell. In order to requalify, a worker who quits voluntarily must earn 12 times his or her weekly benefit amount, and a worker who is discharged must earn 17 times his or her weekly benefit amount. (Before the April 2002 changes in Michigan's UI law, such workers needed to earn only seven times the weekly benefit amount to requalify.) For example, a worker who is ineligible because he quit a previous job would need to find a new job, earn at least 12 times his weekly benefit amount, and then be laid off for lack of work before he would be eligible for UI. If he earned less than 12 times his weekly benefit amount before the layoff, he would still be ineligible. As can be seen in Table 2, Michigan's disqualification provisions resemble those of neighboring states.

Consider next the nonseparation criteria. For most workers, satisfying the nonseparation

criteria entails registering with Michigan Works! (which administers the public labor exchange in Michigan—see below), being available for "suitable" work, and actively searching for *full-time* work. Registering with Michigan Works! is unambiguous, but suitable work can be variously defined. Michigan's law defines suitable work as a job that pays 70 percent or more of the gross pay rate received on the pre-layoff job. (Michigan also defines suitable work as work previously performed or for which the worker is trained.) A worker who refuses to apply for or accept such work can be denied benefits. (Before April 2002, suitable work was defined in relation to a claimant's duration of unemployment. For the first 12 weeks of unemployment, a job was suitable if it paid 80 percent or more of the pre-layoff rate; for the next eight weeks, 75 percent of the pre-layoff rate; and thereafter, 70 percent of the pre-layoff rate.) A worker who refuses suitable work is now disqualified from receiving benefits for 13 weeks (formerly 6 weeks).

Most states are less specific than Michigan in defining "suitable" work; indeed, most simply state that a worker must be available to accept work, which is likely to exclude more workers from eligibility. As Table 2 shows, among neighboring states, only Ohio specifies that UI claimants must be available for "suitable" work.

The requirement to seek full-time work has been controversial because of its implications for the eligibility of part-time workers. For example, a worker who worked 30 hours a week over a period of years and was laid off would very likely be monetarily eligible for UI. Such a worker would have a strong attachment to the labor force by most reasonable definitions, but unless that worker were seeking full-time employment (meaning employment of at least 35 hours per week), she would not satisfy the nonseparation criteria for eligibility. This problem has led some observers to conclude that the UI system is outmoded, in that it suits the needs only of traditional full-time workers and fails to take account of the needs of single household heads with childcare responsibilities. For example, the Advisory Council on Unemployment Compensation

(1995) recommended that workers who satisfy a state's monetary eligibility criteria should not be denied benefits solely because they are seeking part-time work. Sixteen states have modified their eligibility requirements along these lines (U.S. Department of Labor 2002a); however, Michigan has not made such a change, and neither has any neighboring state (see Table 2).

Finally, Michigan reduces the weekly benefit amount by the amount of any disqualifying income, which includes severance pay, salary continuation, back pay, wages in lieu of notice, vacation and holiday pay, and pension income received from a base-period employer. Michigan tightened its disqualifying income provisions in the 2002 changes to its UI law; it did not consider severance pay to be disqualifying income before the changes. Some states consider WC to be disqualifying income, but Michigan does not. Supplemental Unemployment Benefits (SUB), which are important in Michigan because they are paid to many laid-off auto workers by their employers under UAW contract, are *not* considered disqualifying income in Michigan. (This is similar to the treatment of SUB in other states.) Although Michigan's disqualifying income provisions are generally similar to those in other states, UI agencies throughout the country complain that these provisions are difficult to administer and enforce because they generally depend on the worker reporting the income. As a result, they appear to be a frequent source of payment errors (Woodbury 2002b).

Specific policy issues. Two further issues regarding UI benefits have long been important and have recently caused controversy: the waiting week and extended benefits.

During the debate over amending Michigan's UI law in early 2002, consideration was given to requiring a waiting week; that is, a one-week period at the beginning of a claim during which an eligible claimant does not receive benefits. Michigan is the largest of the 12 states that currently does not have a waiting week (U.S. Department of Labor 2002a). Wisconsin, like Michigan, does not have a waiting week; Illinois, Indiana, and Ohio do. Ultimately, the Michigan

legislature did not adopt a waiting week in 2002.

The argument against a waiting week is simply that it delays the receipt of benefits by workers. However, at least two arguments have been made in its favor. First, some researchers have argued that short spells of unemployment tend to be overcompensated, whereas long spells tend to be undercompensated (Davidson and Woodbury 1997; O'Leary 1998). If so, then imposing a waiting week could improve the efficiency of the UI program if the savings resulting from the waiting week allowed the potential duration of benefits to be extended. (It is worth noting, however, that such an extension was not discussed during the debate over the Michigan UI law in 2002.) Second, in insurance terms, the waiting week acts as a deductible and reduces the moral hazard associated with a form of insurance that may be abused. For example, in the absence of a waiting week, a construction worker can maintain a UI claim and reopen that claim for short periods of time—even for a day. If bad weather prevents work on a construction job, the worker receives UI benefits for that day. Few would argue that UI is intended to compensate spells of nonwork that (like those resulting from bad weather in construction) are regular and can be expected.[4] (For further discussion of the waiting week, see Woodbury and Rubin 1997, pp. 220–222.)

As discussed above, Michigan's UI program provides up to 26 weeks of benefits to eligible claimants. These "regular state" benefits are the first tier of the program and are financed entirely from payroll taxes collected from Michigan employers (see below). In 1970, Congress enacted the Extended Unemployment Compensation Act, which is intended to extend the duration of benefits by 50 percent (up to 13 weeks) automatically for workers who have exhausted their regular benefits in states where the labor market has deteriorated as a result of recession. This program, which is widely called "standby Extended Benefits" (or simply "EB"),

[4] Imposing a waiting week would be expected to lead to wage increases for construction workers so that ultimately, the full cost of employing construction workers would be borne by those who hire construction workers, rather than being shifted to others. As discussed below, the tax that finances UI is only partially experience rated, so that the construction industry pays less into the UI system than its workers receive in UI benefits.

can be thought of as a second tier of the UI program. Unlike regular state benefits, EB is funded half by state UI payroll taxes and half by the federal UI payroll tax (again, see below).

During the recession of 1990–91, standby EB activated in only 10 states (one of which was Michigan), and several states that were hard-hit by the recession never triggered onto EB (notably California, New York, and Pennsylvania). Similarly, during the recession and slowdown of 2001–02, standby EB has activated in only 4 states (Alaska, Idaho, Oregon, and Washington). The reason is that Congress revised the triggers that activate EB in 1981, making it much harder for the program to activate. To a large extent, EB has become inactive.

As a result, Congress authorized "emergency" extended benefits during the period from 1991 to 1994, and did so again in March 2002. Such "emergency" benefits can be thought of as a third tier of the program, funded wholly from federal revenues. In most states (including Michigan), the Temporary Extended Unemployment Compensation Act of 2002 (TEUC) extends the potential duration of benefits by 50 percent (up to 13 weeks) for unemployed workers who filed an initial claim for UI after March 10, 2001, and have exhausted their regular state benefits. TEUC benefits are payable from March 16 through December 28, 2002. (An additional 13 weeks of TEUC benefits are available in states where the insured unemployment rate reaches 4 percent. This has occurred only in Alaska, Oregon, and Washington.)[5]

Although extended benefits have been a federal prerogative, extended benefits policy is nevertheless important to the states. In particular, the state UI agencies must set up and administer emergency extensions on very short notice, which is costly and difficult. (State agencies are well-prepared to manage extensions under standby EB, but the form of emergency extensions cannot be known until Congress passes the emergency legislation.) More important, perhaps, is that federal policy—both standby EB and the succession of emergency extensions—reflects and has created an apparent consensus that 26 weeks of benefits are

[5] For further discussion of extended benefits, see Woodbury and Rubin 1997, pp. 250-271.

adequate during economic expansions. In 1971, nine states provided more than 26 weeks of regular benefits (Michigan was not among these), but the number has dwindled steadily since (Blaustein 1993, pp. 303–306), so that only two now provide more than 26 weeks of regular benefits (Massachusetts and Washington State, which both provide up to 30).

Financing UI

In Michigan, as in nearly every other state, UI is financed by a payroll tax that is collected entirely from employers.[6] This UI payroll tax is essential to the federal role in the UI system. The Social Security Act provides for a payroll tax (the Federal Unemployment Tax), which is currently 6.2 percent of the first $7,000 of a worker's earnings in a calendar year. However, employers in states with a federally approved UI program (that is, one that meets the broad guidelines stated in the Act) are credited 5.4 percent and as a result pay only a 0.8 percent Federal payroll tax. This is the incentive whereby the Federal government induced all the states to adopt a UI program (see, for example, Blaustein 1993, Chapter 6, for a discussion).

In Michigan, virtually all employers are required to pay the UI payroll tax. Aside from agricultural and domestic employers, any employer who has one or more workers in any 20 weeks of a calendar year, or who has payroll of $1,000 or more in a calendar year, is a "liable employer" and must pay the tax. (An agricultural employer with ten or more workers in 20 weeks of a year, or payroll of $20,000 or more in a quarter, is also liable. A domestic employer with payroll of $1,000 or more in a *quarter* is liable.)

Tax base. Like any tax, the UI payroll tax has two parts: a base and a rate. In Michigan, the tax base, known as "taxable payroll," was the first $9,500 of a worker's earnings in a calendar year from 1986 through 2002. The April 2002 changes in Michigan's UI law reduced the taxable payroll to $9,000 starting in calendar year 2003. As shown in Table 3, the tax base in three of the

[6] Three states (Alaska, New Jersey, and Pennsylvania) collect a nominal fraction of the payroll tax from workers (along the lines of the Social Security payroll tax) on the assumption that workers will be more likely to claim UI benefits if they perceive that they have played a role in financing them (Blaustein 1993, p. 139). There appears to be no evidence on this latter point.

states neighboring Michigan is also slightly above the federally mandated minimum of $7,000. Sixteen states have a taxable wage base that changes annually in relation to the state's average weekly wage. All of these states have taxable wage bases substantially higher than Michigan's, most in excess of $20,000.

Michigan's taxable payroll is well below the average annual earnings of full-time workers in the state, which are on the order of $37,000. Hence, the taxable wage base is quite narrow and necessitates higher tax rates than a broader base would, for a given level of benefits. The taxable wage base has not always been so narrow. At the outset of the program in 1936, the wage base was the same as Social Security's and covered about 93 percent of earnings (Hamermesh 1977, p. 72). Only in the 1960s did the UI wage base start to erode significantly relative to payrolls. In the first quarter of 2002, the taxable wage base covered only 13 percent of total wages paid by taxable employers in Michigan (see Table 3), and this will clearly drop further with the reduction in the taxable wage base to $9,000 in 2003. Similarly, states neighboring Michigan have taxable wages that are a small percentage of total wages (see Table 3).

The low taxable wage base tends to work against the employment prospects of low-wage, high-turnover workers. Over 85 percent of the earnings of a full-time minimum-wage worker were taxable in Michigan in 2002 (that is, $9,000 out of roughly $10,500 earned). In contrast, less than 25 percent of the earnings of a full-time worker at the average weekly wage were taxable ($9,000 out of roughly $37,000). It follows that the low taxable wage base creates an incentive for employers to prefer high-wage to low-wage workers and shifts the distribution of employment away from low-wage and toward high-wage workers (Hamermesh 1977, pp. 72–75). Similarly, an employer who employs a succession of, for example, four workers to fill a given job in a calendar year will pay more in UI payroll taxes for that job than will an employer who fills a similar job with just one worker during the year. The incentive to prefer low-turnover workers is clear.

Tax rates. In Michigan and every other state, UI payroll tax rates are "experience rated" at the level of the employer, meaning that each employer's tax rate depends on the extent to which that employer has laid off workers who have claimed and received UI benefits in the past. In order to implement a system of experience rating, it is necessary to trace UI benefits received by a worker to the employer who is in some sense responsible for that worker's unemployment. This "charging" of benefits to employers is done in various ways. In 38 states, base period employers are charged in proportion to the base period wages they paid the claimant. Michigan is one of eight states that charges base period employers in reverse chronological order, with the most recent base period employer charged up to 75 percent of the claimant's maximum benefit amount, followed by the next most recent base period employer.

Not all benefits are charged to employers, however. First, some benefits, such as those paid to workers who have quit voluntarily with good cause, dependents allowances, the federal share (50 percent) of standby Extended Benefits, and emergency extended benefits are not charged to any employer (these are known collectively as "noncharged" benefits). Second, some benefits are "inactively charged"—that is, charged to firms that have gone out of business, which obviously makes it impossible to collect UI payroll taxes. Third, some benefits are "ineffectively charged"—that is, charged to a firm but uncollectable because the firm is at the maximum UI payroll tax rate (see below). In such cases, further layoffs may be charged to the firm, but they cannot result in higher tax rates or larger payments into the UI trust fund.

In practice, experience rating applies only to employers who have been liable (that is, paying UI payroll taxes) for more than two years. In Michigan, new employers all pay a "standard rate" of 2.7 percent for their first two years, except for new construction employers, who pay the average construction industry rate (between 6.8 and 8.1 percent in recent years). In their third and fourth years, employers pay a rate that combines a standard rate (which is specific

to the year in business) with a rate calculated from their layoff experience during the first two or three years of business (specifically, the Chargeable Benefits Component, as described below). In their fifth and subsequent years, the payroll tax is the sum of three components, all of which are specific to the employer and depend on past layoff experience.

The first component of Michigan's UI payroll tax is the "Chargeable Benefits Component" (CBC), which is calculated by summing all *UI benefits paid* to workers laid off by the employer during the past five years and dividing this by the *UI taxable payroll* of the employer during the same five years:

CBC = *UI benefits paid / UI taxable payroll*

The CBC is rounded up to the next 0.1 percent and cannot exceed 6.0 percent in 2002 (this maximum increases to 6.3 percent in 2003). For example, an employer whose workers received $100,400 in UI benefits during the past five years and had a five-year taxable payroll of $10,000,000 would have a CBC of 1.1 percent. Formulas similar to the above "benefit-ratio" formula are used by 17 states (including Michigan and Illinois) to experience rate the UI taxes of employers.

The second component of the payroll tax rate is the "Account Building Component" (ABC), which is calculated in three steps. First, the employer's *required reserves* are calculated by taking a fraction (3.75 percent in 2002) of the employer's total payroll (not taxable payroll) during the past 12 months. Second, the employer's *actual reserves* are calculated by taking the difference between all UI payroll tax payments ever made by the employer and all UI benefits ever paid to workers laid off by the employer. (In effect, each employer has an account into which all its UI payroll taxes flow and from which UI benefits are paid to its laid-off workers.

The balance in this account is the employer's *actual reserves*.) Third, the *required reserves* and *actual reserves* are used to calculate the ABC by the following formula:

$$ABC = [0.25 \times (\textit{required reserves} - \textit{actual reserves})] / \textit{total payroll}$$

where *total payroll* is the employer's payroll during the past 12 months. The ABC is rounded up to the next 0.1 percent and cannot be greater than 2 percent (or less than 0). For example, if the above employer had annual *total* payroll of $6,000,000, its required reserves would be $225,000 (0.0375 × $6,000,000). If its actual reserves were $0 (payroll tax contributions equaled UI benefits paid over the life of the employer), then the ABC would be 1 percent [0.2 × ($225,000 – $0)/$6,000,000]. Formulas like this are generally called "reserve-ratio" formulas and are used by 35 states (including Michigan, Indiana, Ohio, and Wisconsin) to experience rate the UI taxes of employers. Only Michigan and Pennsylvania use both a reserve-ratio formula and a benefit-ratio formula to experience rate UI payroll taxes. Figures 1 and 2 show Michigan's CBC and ABC tax schedules. The figures have the same scaling to emphasize that the variation in the CBC (and therefore, the degree of experience rating that it produces) is greater than for the ABC.

The third component of the UI payroll tax rate is the nonchargeable benefits component (NBC), which is a flat rate charged to all employers who have been in business for more than four years. The NBC is either (1) 1 percent for employers who have incurred any benefit charges in the last five years; or (2) a lower rate for employers who have incurred *no benefit charges* in the last five years. The 1 percent rate for employers who have incurred a charge in the last five years has existed for many years and is scheduled to continue into the future. The lower rate for employers who have incurred no charge in the last five years fell by statute from 0.5 percent in 1993–1995, to 0.1 percent in 1999–2002. It is scheduled to fall to 0.06 percent in 2003. (Note

that the NBC does not apply to employers who have been in business less than five years because these employers already pay either a flat rate or a rate that combines an experience-rated component with a flat rate.)

The resulting range of tax rates in Michigan and the ranges that are currently in effect in neighboring states are shown in Table 3. Michigan's range of 0.06 to 6.3 percent is similar to the ranges in Illinois, Indiana, and Ohio. Wisconsin has a substantially greater range of tax rates—0 to 9.75 percent. Recall that Wisconsin also has a larger taxable wage base, which gives it greater leverage to collect taxes from employers who frequently lay off workers. From the mid-1980s well into the 1990s, Michigan had a maximum payroll tax rate of 10 percent, but its taxable wage base has never exceeded $9,500.

Table 3 also shows that Michigan's average UI payroll tax—0.6 percent of total wages—is slightly higher than that of other states in the region. This is partly because Michigan's taxable wage base has been slightly higher than that of its neighboring states (except Wisconsin), and partly because Michigan's dual experience rating system (which uses both a benefit-ratio formula and a reserve-ratio formula) assigns most employers a higher tax rate than would a system that uses a single formula.

Policy issues in UI financing. It should be clear from the above discussion that Michigan's method of setting UI payroll taxes results in experience rating that is incomplete. This is because the payroll tax is capped at 6.00 percent as of 2002. If the payroll tax were not capped, many employers would face higher tax rates as a result of their layoff experience. Because it is capped, these employers pay less into the UI system than is drawn by the workers they lay off.

This leads to the first of two issues concerning the UI payroll tax that are of longstanding concern to policymakers, employers, and UI advocacy groups—effective subsidization of high-

layoff employers by low-layoff employers through the UI system. The most recent study of cross-subsidies in Michigan, by Munts and Asher (1980), used data for 1969–1976 and found that Michigan's cross-subsidies were the highest of the 21 states studied. However, this study is rather out-of-date. The most recent evidence on cross-subsidies (Woodbury 2002a) examined firm-level data from Missouri, Pennsylvania, and Washington State during 1985–1995. In Pennsylvania, which has a UI payroll tax structure similar to Michigan's, benefit payments to laid-off construction workers were twice the payroll taxes paid by the construction industry. Moreover, a firm that was subsidized in one year (that is, had benefit charges exceeding UI payroll taxes) had a probability in excess of 50 percent of still being subsidized five years later.

The original rationale for experience rating the UI payroll tax was to create a financial incentive for employers to avoid layoffs and hence stabilize employment (Witte 1962). The second main concern generated by the cap on the payroll tax is that, for high-layoff employers who reach the maximum tax rate, the incentive to avoid layoffs is removed. Several studies have estimated large impacts of experience rating on temporary layoffs. For example, Card and Levine (1994) found that complete experience rating would reduce temporary layoffs by 50 percent in a recession.

As mentioned above, in April 2002, the Michigan legislature lowered the taxable wage base and widened the spread between the minimum and maximum UI payroll tax rates. The impact of these changes on cross-subsidization and employer layoff behavior is difficult to predict: The reduced taxable wage base will exacerbate the cross-subsidies and increase the incentive for employers at the maximum tax rate to lay off workers, but the reduced minimum and increased maximum tax rates will have the opposite effects. Firm-level data and a simulation model would be needed to estimate the impacts of the tax changes with any confidence. However, the legislated changes are probably too small to have significant impacts.

Trust fund adequacy. Unlike Social Security, UI is not a pay-as-you-go system. Rather, each state places UI payroll taxes that it collects in a trust fund from which benefits are paid. The intent is to "forward-fund" UI so that, in a recession, funds required to pay benefits will be available and UI will serve as an automatic stabilizer. The bottom four rows of Table 3 display figures on the UI revenues and trust fund balances of Michigan and its neighboring states. During 2001, Michigan collected nearly $1 billion in UI payroll taxes, and in early 2002, it had a trust fund balance of about $2.4 billion, the largest in the region.

The trust fund must be viewed in relation to the demands that may be placed on it. Two widely used measures of UI trust fund adequacy are shown at the bottom of Table 3. The first—the high-cost multiple—is the trust fund as a percentage of state taxable wages divided by the highest ratio of benefits to taxable wages ever paid in the state's history. The high-cost multiple, then, suggests the fraction of a year for which a state's existing trust fund would be adequate if benefits were paid at the highest rate ever observed in the past. The second measure—the average high-cost multiple—is (again) the trust fund as a percentage of state taxable wages, but this time divided by the *average* ratio of benefits to taxable wages paid over the program's history. This is a less stringent measure of trust fund adequacy because it suggests the fraction of a year for which a state's existing trust fund would be adequate if benefits were paid at their average historical rate.

Standards for trust fund adequacy have been somewhat elusive. The Advisory Council on Unemployment Compensation (1995) recommended that states maintain an average high-cost multiple of 1. But Emsellem et al. (2002) consider states with a high-cost multiple of 0.75 to be adequately funded. For the United States as a whole in early 2002, the high-cost multiple was 0.54, and the *average* high-cost multiple was 0.75.

Table 3 shows that Michigan's average high-cost multiple was 0.65 in early 2002—below

both the national average and the levels that have been considered "adequate." Illinois and Ohio are also below the national average; Indiana and Wisconsin substantially exceed the average.

The April 2002 amendments to Michigan's UI law reduced the taxable wage base and the minimum payroll tax rate but increased the maximum tax rate. The Bureau of Unemployment & Workers' Compensation has referred to these changes overall as a tax cut. But the April 2002 amendments also increased the maximum benefit amount, which will increase benefit payments. It seems clear that the adequacy of Michigan's UI trust fund, as measured by the high-cost multiple, will fall as a result of the amendments.

Competing Goals of the UI System

The origins of the UI program are rooted in the idea of social insurance—that it is desirable (and efficient) to partially replace the lost earnings of workers who lose their jobs through no fault of their own, and that the extent of wage replacement should be tied to the regular earnings of the job loser (see, for example, the legislative history of UI by Witte 1962). This goal was reiterated by the Advisory Council on Unemployment Compensation (1995, p. 8):

> The most important objective of the U.S. system of Unemployment Insurance is the provision of temporary, partial wage replacement as a matter of right to involuntarily unemployed individuals who have demonstrated a prior attachment to the labor force. This support should help to meet the necessary expenses of these workers as they search for employment that takes advantage of their skills and experience.

The goal, then, is to increase the stability of income and consumption of workers who have a history of labor force attachment.

A potentially conflicting view is that UI can and should serve as an essential component of an income transfer system that redistributes income to the working poor. This view is rarely stated explicitly, but it has been implicit in various policy discussions of UI following the growth of anti-poverty programs in the 1960s. For example, 20 years ago, Corson and Nicholson (1982) criticized one of the extended UI benefit programs as "target inefficient" because it paid

"substantial" benefits to the nonpoor. In reviewing the book, Hamermesh (1982) remarked that "this poverty-fighter's view of UI . . . is quite inconsistent with the origins and goals of the UI program . . . ."

Interest in the potential for UI to serve as an anti-poverty program (or as an important part of a larger anti-poverty strategy) has been heightened by the welfare reforms of 1996. As former welfare recipients have flowed into the labor market following those reforms, the effectiveness of UI has been measured increasingly by its ability to provide income support for a growing number of unemployed former welfare recipients, who generally have earnings that are quite low. For example, the U.S. General Accounting Office (2000, p. 7) noted that "few states have adjusted their UI programs to eliminate practices that may present difficulties to low-wage workers, particularly these new workers [former welfare recipients]." Other research—for example, Gustafson and Levine (1998) and Kaye (2001)—has raised specific concerns about the extent to which nonmonetary eligibility criteria prevent former welfare recipients from obtaining UI. Clearly, the effectiveness of UI is being judged by its ability to provide income support to workers who have not traditionally been within its ambit.

To argue that UI should not be reformed with an eye to assisting former welfare recipients because it is not intended as income support for former welfare recipients is circular reasoning. However, relaxing eligibility requirements inevitably brings workers into the system who are at higher risk of unemployment, more likely to draw benefits, and more likely to abuse the system. The result is a higher-cost system that tends to redistribute income from higher-wage, low-unemployment workers to lower-wage, high unemployment workers, rather than insuring unemployment risks. In the 1970s, when the UI system came to be perceived as "too generous," reductions in benefits and potential durations followed, ultimately undermining the adequacy of benefits for the traditional beneficiaries of UI (Blaustein 1993).

The goal should be to make changes in the system that are likely to benefit former welfare recipients and are also consistent with the original insurance purposes of UI. Two changes that probably meet these criteria would be relaxing the requirement that UI recipients must seek full-time work and making UI available to workers who have quit a job in order to care for a dependent. The case for these changes is that other eligibility provisions are sufficient to ensure that such workers have a reasonable attachment to the labor force. However, two changes that probably do not meet the above criteria would be reducing monetary eligibility requirements generally and making UI available to workers who have quit a job in order to attend school. The first weakens the test by which workers are judged to be attached to the labor force, and the second is a matter of choice and hence is not an insurable risk.

Reemployment Programs

Reemployment policy in Michigan and other states has been significantly shaped by federal policy, which has funded and directed most state employment and training programs. Federal reemployment policy can be dated to the passage in 1933 of the Wagner-Peyser Act, which established the U.S. Employment Service (ES). Throughout its history, the ES has served as a free public labor exchange, registering job seekers, taking job orders from employers, and matching workers with job vacancies. Since the establishment of UI in 1935, the ES has also administered the nonseparation criteria for UI (discussed above), which attempt to ensure that UI recipients are able to work, available for work, and seeking work. Although the ES has had other goals and functions over the years, these two—matching workers to jobs through placement and other reemployment services, and administering the UI work test—have been consistent.

The Workforce Investment Act of 1998 (WIA) has pointed federal and state policy to assist unemployed workers in a new direction. This section reviews the evolution of

reemployment policy through WIA and describes how reemployment services are changing under WIA. It also discusses the activities of the Michigan Department of Career Development and its role under WIA, and poses research questions that will need to be addressed in evaluating WIA's effectiveness.

The Employment Service

Like UI, the ES is a federal-state system; that is, each state administers its own ES program, but the U.S. Department of Labor funds and oversees the state programs. Accordingly, the role of the ES has changed as the emphasis of federal reemployment policy has changed. This evolution of the ES's role is summarized in Table 4, which lists major federal legislation on employment and training, noting the implications of each piece of legislation for the ES and reemployment policy.

Until the 1960s, reemployment policy in the United States emphasized job placement and assumed that unemployed workers were job-ready and merely needed to be matched to an employer. During the 1960s, however, the Manpower Development and Training Act and the Economic Opportunity Act shifted emphasis away from job placement and toward "second-chance" training of workers who were either poorly served by the conventional system of public education or dislocated as a result of structural economic change. The role of the ES in this shift was at first substantial, but that role dwindled with the adoption of the Comprehensive Employment and Training Act (CETA) in 1973. Under CETA, training services were administered locally with the result, in the view of many, that reemployment services became fragmented. The diminished role of the ES continued through the 1980s and into the 1990s following adoption of the Job Training Partnership Act (JTPA) in 1982.

During the 1980s, there was much dissatisfaction with the ES, and questions were raised about its role and importance. Also during the 1980s, however, convincing research (reviewed by

LaLonde 1995) became available showing that existing government training programs fell short of their hoped-for results. Moreover, a series of demonstrations using randomized trials suggested the effectiveness of relatively inexpensive reemployment services—job search workshops, interview and resume preparation classes, and other assistance—in helping unemployed workers (see the review by Meyer 1995). As a result, the former optimism about second-chance training was replaced by an emphasis on placing workers in jobs. In short, the sentiment in favor of "training first" was replaced by a growing belief in "work first."

The reemphasis on "work first" that took hold during the late 1990s is reflected in the federal funding of training programs in Michigan for disadvantaged adults, youth, and dislocated workers. As can be seen in Table 5, overall funding for these programs fell by over 40 percent between 1994 and 2000, although it has risen slightly since. Funding for the youth program was cut more severely than was funding for the adult or dislocated worker programs. This was a response to evidence from the National JTPA Demonstration that training programs for out-of-school youths had no positive impact on earnings. [See U.S. General Accounting Office (1996) and Bloom et al. (1997) for summaries of the evidence, much of which was available as early as 1993.]

The new emphasis on "work first" is also reflected in amendments to the Social Security Act that established the Worker Profiling and Reemployment Services initiative in 1993. Under profiling, UI claimants who are likely to exhaust their UI benefits are required to attend job search assistance workshops conducted by the ES or risk losing their UI benefits. [Eberts and O'Leary (1996) discuss Michigan's profiling system; Corson and Decker (2000) offer evidence on the effectiveness of profiling.]

The Workforce Investment Act (WIA)

The emphasis on "work first" is again clear in the Workforce Investment Act of 1998,

which embodies two main changes in reemployment policy. First, it requires that states provide most federally funded employment and training services through a system of One-Stop Centers, which provide all reemployment services (or information about and referral to such services) at a single location. The intent of One-Stop Centers is to offer an attractive, logically organized office that directs any job seeker to information, assistance, or programs needed to gain employment. Moreover, One-Stop Centers encourage coordination of services by collecting the day-to-day operations of various reemployment programs under a single manager.

Second, WIA has replaced the JTPA programs for economically disadvantaged and dislocated workers with programs for adults, dislocated workers, and youth that deemphasize the differences among groups needing assistance. Specifically, WIA provides three levels of services—core (including basic services such as job search assistance), intensive (including services such as assessment that require staff assistance), and training (for eligible workers). As part of this overhaul, the Private Industry Councils that existed under JTPA are replaced with Workforce Development Boards. This latter change is significant because, whereas Private Industry Councils were concerned mainly with the provision of training under JTPA, Workforce Development Boards have responsibility in principle for overseeing all reemployment services and government-funded training in their region. (In practice, further legislation will be required before Workforce Development Boards are able to influence programs like Vocational Rehabilitation and Vocational-Technical Education.)

The idea of "one-stop" reemployment services is hardly new: Haber and Murray (1966) referred to it as early as 1966, and a year later, the Manpower Administration issued a memorandum on "Improving Communication and Service to the Public," which discussed integrated delivery of human services at central locations. Accordingly, WIA must be viewed as an attempt to bring about what has long been viewed as desirable—the centralization of

information and other reemployment services, including referral to training, to promote employment.

Reemployment Services in Michigan

The traditional role of the ES—that of a free public employment agency—has involved provision of five main services: assessment (which may include counseling and aptitude and interest testing), job referral, job development (which is similar to job referral except that an ES interviewer contacts one or more employers known to hire workers with the applicant's skills), referral to training, and other job search assistance services. As a result, it has been natural to make state ES agencies responsible for One-Stop Centers. Michigan's One-Stop Centers are known as Michigan Works! and are administered by the Michigan Department of Career Development.

Michigan Works! differs from One-Stops in other states in two ways. First, in 1997, Michigan dissolved the Michigan Employment Security Commission, which used to house Michigan's ES agency, and contracted out ES services rather than having those services provided by state workers. Second, at the same time, Michigan was one of a handful of states that was granted permission by the Department of Labor to allow ES applicants to serve themselves and refer themselves to jobs, rather than rely on ES staff for job referrals. In Michigan, then, workers register with Michigan Works! by entering information on themselves into a computerized "talent bank." They are then able to access job listings and can contact employers without the assistance of Michigan Works! staff. Research does not exist on whether this approach benefits workers more than the traditional approach, which requires staff assistance. It is clear, however, that the self-service approach has made it difficult to monitor the extent to which use of the ES results in job referrals and placements.

Table 6 compares the 1999 activities of Michigan Works! with the those of ES agencies in

neighboring states (Program Year 1999—July 1999 to June 2000—is the most recent year for which data are available). The overall level of activity of these agencies can be measured by ES applicants as a percentage of the labor force. The ES agencies of Michigan, Indiana, and Wisconsin all appear to have activity levels that are fairly close to the national average. Ohio has an unusually active ES, and Illinois has the least active ES of the states shown.

The mix of clients served by Michigan's ES differs from that in neighboring states in several respects. Mainly, a far higher percentage of Michigan Works! clients are UI claimants (who in principle need to register with the ES in order to remain eligible for benefits) than is the case elsewhere. The finding suggests that Michigan makes more effort than other states to ensure that UI claimants are seeking work. This is consistent with anecdotal evidence that, when the Michigan Employment Security Commission was dissolved, efforts were made to ensure that UI claimants would register with Michigan Works!

Table 6 also suggests that Michigan Works! is serving fewer economically disadvantaged and disabled workers than are ES agencies in neighboring states. Whether this is actually the case is debatable. It seems likely that the conversion of One-Stop Centers to self-service in Michigan lowered the reported number of disadvantaged and disabled workers who are served by Michigan Works! Disadvantaged and disabled workers who register with Michigan Works! are not required to classify themselves as such—in fact, Michigan Works! staff may urge them not to report that they are disadvantaged or disabled in the belief that doing so would lower their chances of getting a job. If this is the case, then these figures represent a failure to report services provided to disadvantaged and disabled workers. Nevertheless, it is unfortunate that the extent to which Michigan Works! potentially serves the needs of disadvantaged and disabled workers is difficult to track. The underlying problem is that the U.S. Department of Labor has not imposed uniform reporting requirements on the ES agencies of the states.

The middle panel of Table 6 shows the percentage of ES applicants receiving various services in each state and nationally, and the bottom panel shows the percentage of UI claimants who receive various services. Michigan's rates of training referral, job referral, and job placement are far below the national average and the rates in neighboring states. This could reflect Michigan's self-service approach, discussed above, although other states that have moved to self service report much higher rates of service delivery. These states have devised ways of tracking the extent to which workers who serve themselves contact employers (that is, "self-refer") and obtain jobs. No research has examined the relative effectiveness of self-referrals and referrals made with ES staff assistance; this is an important question that is ripe for research.

The middle panel of Table 6 suggests that Michigan provides less job search assistance to workers than do other states (except Wisconsin). Job search assistance includes job search workshops, job-finding clubs, and classes in job-finding skills, all of which are important parts of UI profiling. The bottom panel shows that Michigan provides job search assistance to only 2 percent of UI claimants, compared with nearly 40 percent nationally, suggesting that Michigan is profiling very few UI claimants. So although Michigan is registering a higher percentage of its UI claimants than most states are (top panel of Table 6), it is providing them with relatively few reportable services.

Unfortunately, the data gathered by the states and the U.S. Department of Labor on ES activities have been rather uneven over the years. However, to the extent possible, Table 7 compares the clientele and reemployment services provided in the United States generally with those in Michigan in 1995 (that is, before WIA) and 1999 (the most recent program year for which data are available).

The upper panel of Table 7 shows that the number of ES and Michigan Works! applicants fell during the late 1990s, which were years of falling unemployment. Nationally,

nearly 40 percent of ES applicants were UI claimants; however, the percentage of Michigan Works! applicants who were UI claimants was rather volatile. The ES administers special programs for veterans, and this is reflected in the percentage of ES applicants—10 to 12 percent nationally—who are veterans. In 1999, a higher percentage of Michigan Works! clients were veterans, and a lower percentage were economically disadvantaged than was the case nationally. Also, in both 1994 and 1999, a higher percentage of Michigan Works! clients were farm workers than was the case nationally.

The bottom panel of Table 7 shows that, nationally, the percentage of ES applicants who received job search assistance rose from 27 percent to 40 percent between 1995 and 1999, reflecting the adoption of UI profiling in 1994. (Unfortunately, state-by-state breakdowns of job search assistance are not available.) Training referrals were rare in both 1994 and 1999. Nationally, over 40 percent of ES applicants received job referrals in 1995 and 1999, and over 10 percent were placed in a job. In Michigan, however, job referrals fell between 1995 and 1999 due to the adoption of self-service by Michigan Works! in 1997 (see above). No research has examined whether self-referral is more or less effective than the traditional approach—that is, referrals made with ES staff assistance—and this is clearly a field that is ripe for research.

Michigan's Response to Changing Federal Policy and Policy Issues

Although reemployment programs are largely federally funded, much variation exists among states in the organization and administration of reemployment services, and under WIA, these interstate differences are likely to increase. Such differences represent both politics and efforts to deliver reemployment services effectively.

Since 1999, the Michigan Department of Career Development (MDCD) has been responsible for the state's reemployment and training programs. Originally, the MDCD consisted of three agencies—the Employment Service Agency, which has already been discussed; the

Office of Workforce Development, whose main responsibility is to administer Work First, the state's welfare-to-work program, but which also administers other training programs; and Michigan Rehabilitation Services, whose main responsibility is to administer the Vocational Rehabilitation component of Workers' Compensation (see below). A later executive order moved three additional agencies into MDCD—the offices of Career and Technical Education Services, Postsecondary Service, and Adult Education. These latter are essentially educational programs that are outside the scope of this chapter. MDCD currently employs about 1,100 personnel and in 1999–2000 directed the distribution of nearly $550 million, over 95 percent of which were federal funds (Michigan Department of Career Development 2000). Many observers expect the organization of these agencies to change after the Engler Administration ends.

WIA represents a significant change in the reemployment system, and its success will turn on whether the assumptions underlying its adoption are correct. The above discussion suggests the importance of the following research questions:

1. Is WIA's "work first" approach effective? WIA has been criticized because it emphasizes job placement over training and reduces funding for training (Bartik and Hollenbeck 2000). An essential question for reemployment policy remains whether programs that encourage employment (or rapid reemployment, even in a low-wage job) are better for workers and society in the long run than are government training programs.

2. What is the value of various reemployment services? Of the reemployment services traditionally provided by the ES—job referral, counseling and assessment, job development, and other (intensive) services—only job referral and intensive services have been evaluated comprehensively. However, existing evidence on the effectiveness of referrals has been criticized because, unlike the most convincing evidence on employment and training policies, it has not been based on randomized trials. Also, the intrinsic value of intensive job search assistance

remains unclear. Existing experimental research suggests that job search workshops reduce unemployment duration by imposing an additional requirement on UI recipients (that is, the requirement to report for services) rather than by enhancing workers' job search abilities per se (Balducchi, Johnson, and Gritz 1997). In order for One-Stop Centers to function effectively, knowledge of what services work best for various groups of workers is essential.

3. Do the arguments in favor of a public labor exchange—such as those made by Bendick (1989) more than a decade ago—continue to hold in a day of relatively easy internet access? Little is known about the value of universal access to information of the kind available through America's Job Bank, the computerized national labor exchange. Arguments for the public subsidy and provision of information on jobs turn on the value of such information and the failure of private markets to generate enough information.

4. How is the performance of reemployment services best gauged? The performance indicators set out in WIA have been criticized by researchers for their focus on easily measurable outcomes that are weakly related to the value of reemployment services and that may create incentives for One-Stop Centers to assist those applicants who are least in need of services (that is, to "cream"). For example, emphasis on the "entered-employment rate"—the proportion of applicants who enter employment within 90 days—can be expected to induce One-Stop Centers to focus on workers who might easily find jobs on their own rather than on workers requiring greater effort to place (U. S. General Accounting Office 2002). There is much need for research into performance measures that are easily obtained and that also gauge the benefits and costs of services provided.

WIA brings reemployment policy closer to the focus on job placement and "work first" that existed before the emergence of federally funded training programs in the 1960s, but with a twist. While attempting to retain what many view as the benefits of a reemployment system that

receives substantial direction from local community interests, WIA promises to centralize the locus of information, training, and other services that help unemployed workers in One-Stop Centers. Evaluating whether WIA is effective and learning what can be done to improve the reemployment system will require data and innovative research that will occupy policymakers and researchers for years to come.

Workers' Compensation and Vocational Rehabilitation

Every state except Texas requires virtually every employer to carry insurance that covers and compensates workers who are injured on the job or suffer work-related illness. This Workers' Disability Compensation (WC) insurance covers medical care associated with the injury or illness, occupational rehabilitation services necessary before the worker can return to work, and cash benefits that partially replace the earnings lost by the worker as a result of the injury.

Unlike UI, WC has no federal component—each state has adopted a WC system without federal incentives or mandates. All but four states adopted WC between 1911 and 1921 (Michigan's WC law dates to 1912). Before WC existed, liability for a workplace injury essentially fell on the worker. In order to recover any damages resulting from a workplace injury, a worker needed to sue the employer and show that the employer's negligence had caused the injury. Employers, in turn, had three powerful common-law defenses against such suits, which made it extremely difficult for workers to win damages, and even workers who prevailed received a remedy only after great expense and long delay. Employer liability statutes, adopted in 35 states between 1885 and 1910, restricted employers' common-law defenses and improved the likelihood that a worker would recover damages for a workplace injury. But even under employer liability statutes, workers had to sue employers for damages, which was both costly and time-

consuming.[7]

In contrast, WC shifts much of the liability for workplace injuries to the employer. Every WC law has three essential features. First, WC is a no-fault insurance system—if a worker is injured on the job, he or she receives benefits that are specified in the law regardless of who is at fault. Second, WC is intended as the exclusive remedy for workplace injuries and hence limits the employer's liability. That is, in exchange for buying WC insurance, the employer's liability is limited to providing the benefits specified in the law, and workers give up their right to sue the employer in exchange for the certainty of receiving those specified benefits in a timely fashion. Third, employer participation in the system is mandatory—with few exceptions, employers are required to buy WC insurance that provides benefits specified in the law. (In Michigan and six other states, employers with fewer than three workers are exempt from coverage. Most states have special provisions allowing exemption of some agricultural and domestic employers. Federal workers, longshore, maritime, and railroad workers are covered by separate systems. In most states, including Michigan, state and local government workers are covered by the state's WC law.)

Although the principles of WC are clear, disputes arise routinely over whether an injury or illness is compensable (for example, is the injury or illness in fact work-related?), as do questions about the adequacy of medical treatment, rehabilitation services, and earnings replacement benefits. Each state has procedures for handling such disputes, which arise in roughly 20 percent of Michigan's WC claims. The state provides and administers these dispute resolution procedures, which include mediation, a pretrial hearing, a trial conducted before a WC magistrate who specializes in WC cases, and an appeals process that includes review by the Workers' Compensation Appellate Commission. Claimants often employ attorneys to represent

[7] Useful general references on Workers' Compensation include Butler (1999), Thomason, Schmidle, and Burton (2001), and Williams, Turnbull, and Cheit (1982).

them in such procedures, and civil lawsuits remain a possibility in unusual cases (Falaris, Link, and Staten 1995). Welch (2000) includes a useful guide to dispute resolution procedures in Michigan.

Ideally, an efficient WC system would minimize the sum of all costs due to workplace accidents and injuries—that is, the sum of (1) losses to victims of accidents, (2) losses due to reduced output from accidents, (3) the costs of accident prevention, and (4) the costs of administering the system (Butler 1999, chapter 7). Few studies view WC in such an economic context, however. Rather, policy and legislative discussions of WC have been dominated by three general topics which address the economic goals of the system only indirectly: benefit adequacy, costs (including whether the existing delivery system is efficient), and whether the system improves workplace safety. The following discussion follows the more policy-oriented approach, focusing mainly on benefit adequacy and costs in Michigan and neighboring states.

Workers' Compensation Benefits in Michigan and Neighboring States

It is useful to begin by distinguishing between "medical only" claims and "lost-time" claims. Most WC claims are for relatively minor injuries that involve medical treatment but no wage replacement benefits. These "medical only" cases have been estimated to account for 76 percent of all WC *claims* nationally during 1996–1998, but for only 6.2 percent of all WC *benefits paid* during that time (Mont et al. 2002). Lost-time claims involve payment of cash wage replacement benefits. In Michigan, the number of medical-only claims is not tracked, but the number of lost-time cases has fallen sharply from about 95,000 in 1988 to under 44,000 in 2001, reflecting a general decline in workplace injury rates (Welch 2002).

Wage replacement benefits are of five types. "Temporary total" benefits are paid to workers who are expected to recover but are unable to work at all for some time. Some workers with a temporary disability return to work before they recover fully, taking on less work for a

period of time during which they receive "temporary partial" benefits. Temporary benefits (total and partial together) account for 71 percent of all WC cases involving wage replacement benefits and for 26 percent of all WC benefits paid (medical, rehabilitation, and wage replacement) in cases that involve wage replacement benefits (see Table 8, which is based on Mont et al. 2002).

Workers who are not expected to recover fully from an injury or illness receive "permanent" disability benefits, which may be either "permanent partial" or "permanent total." Permanent partial benefits account for 28 percent of all WC lost-time *cases*, but they account for 63 percent of all WC lost-time *benefits*. In contrast, permanent total benefits (along with death benefits, which are the fifth type of benefit) account for just less than 1 percent of all WC lost-time *cases*, but for 11 percent of all WC lost-time *benefits* (see Table 8).

How do the benefits provided by WC in Michigan compare with those in neighboring states? Table 9 offers a summary. Michigan and three of its neighboring states provide "full" medical benefits to WC recipients, meaning that all "reasonable and necessary" medical care associated with the covered injury or illness is provided or reimbursed. In Ohio (the exception), a worker must be examined by the Bureau of Workers' Compensation Medical Section after 90 days of temporary total compensation to determine eligibility for continued treatment and compensation. Ohio is unusual in this limitation (only six other states limit medical benefits under WC in some way). Nevertheless, to contain the costs of medical benefits under WC, insurers in Michigan and elsewhere have resorted to a number of expedients, such as managed care and fee schedules that specify the maximum that a health care provider can charge for a given service (similar to the fee schedules that exist for Medicare and private health coverage). Also, in Michigan and Indiana, the employer makes the initial selection of the health care provider.

In Michigan and its neighboring states, vocational rehabilitation benefits are provided by law; hence, the employer is responsible for rehabilitation costs. In Michigan, Illinois, and Indiana,

the worker is required to accept vocational rehabilitation or suffer reduced wage replacement benefits. Michigan, Indiana, and Ohio have rehabilitation units that provide rehabilitation services directly. Michigan Rehabilitation Services, in addition, provides referrals and monitors cases.

In most states, WC wage replacement benefits—temporary and permanent, partial and total—are specified as two-thirds of a worker's pre-tax, pre-injury weekly wages up to a maximum. The maximum is usually specified as a percentage of the state's average weekly wage (SAWW in Table 9). This is the case in the states that neighbor Michigan, except for Ohio, where temporary total benefits are 72 percent of pre-injury wages for the first 12 weeks of payment. Wage replacement benefits are not subject to either federal or state income taxation, in contrast to UI benefits. Also, in all states, wage replacement benefits start only after a waiting period of 3 to 7 days, although many states pay benefits for the waiting period retroactively if the disability exceeds some specified period of time (see Table 9 for the waiting periods and retroactivity for temporary total benefits).

Since 1982, Michigan has taken a different approach than most other states by specifying wage replacement benefits as 80 percent of a worker's "spendable" (or after-tax) pre-injury weekly wages, up to 90 percent of the SAWW. (Five other states also determine benefits as a percentage of spendable or after-tax earnings.) To determine the worker's pre-injury wage, Michigan averages wages in the highest 39 of the 52 weeks before the injury. Note that a worker whose average tax rate exceeds 20 percent would receive higher wage replacement benefits under the Michigan formula than under the standard formula.

Permanent partial benefits, summarized at the bottom of Table 9, are the most contentious category of benefits because disputes arise over both the degree of disability (since the disability is "partial") and whether the disability is truly permanent. Permanent partial benefits may be paid in either of two ways. First, "scheduled" benefits (called "specific loss"

benefits in Michigan) are paid for specific injuries that are listed in the law, such as loss of a hand. Michigan and most states pay scheduled loss benefits as a number of weeks of benefits up to a dollar maximum. Table 9 shows the scheduled loss benefits paid for loss of a hand and loss of an eye in Michigan and its neighboring states. For example, a worker who loses a hand in Michigan receives 215 weeks of benefits (up to $138,460) regardless of the amount of work time lost.

Second, nonscheduled benefits are paid for injuries that are not listed in the law, such as a back injury. Determination of nonscheduled benefits can be quite complicated (Berkowitz and Burton 1987). In Michigan, an attempt is made to estimate the wage loss resulting from the disability (in many cases the wage loss is negotiated). Many other states use a level of disability expressed as a percentage to determine nonscheduled permanent partial benefits. The bottom panel of Table 9 shows how nonscheduled permanent partial benefits compare in Michigan and neighboring states.

In 1972, the National Commission on State Workmen's Compensation published recommended standards for state WC laws (National Commission 1972). Michigan's law currently meets many of the Commission's recommendations, but in two areas Michigan's law falls short of both the Commission's recommendations and neighboring states. First, the Commission's recommendations call for maximum wage replacement benefits equal to 100 percent of the SAWW. Illinois, Ohio, and Wisconsin do so, but Michigan sets its maximum at 90 percent of the SAWW. (Indiana sets its maximum by statute, rather than in relation to SAWW, which also fails the Commission's recommendations.) Second, the Commission's recommendations call for broader coverage provisions than does Michigan's law. In particular, Michigan does not require employers of fewer than three workers to carry WC, whereas neighboring states make coverage compulsory even for very small employers.

Workers' Compensation Costs in Michigan and Neighboring States

During 2000, private insurance companies provided roughly 58 percent of the WC insurance in Michigan (Mont et al. 2002). The remaining 42 percent was provided by employers who self-insured—Michigan, like most states, allows companies that are large and financially sound to administer their own WC programs and provide the benefits that are specified in the law. (Michigan also allows smaller employers belonging to a trade organization to "group self-insure.")

A third option for providing WC insurance currently exists in half the states—a state-operated insurance fund. In 20 states, these funds are "competitive," meaning that they exist along with (or in competition with) private insurers in the state. In five states, the largest of which is Ohio, the state fund is "exclusive," meaning that private insurers are not permitted to offer WC insurance in the state. Michigan had a competitive state fund until the end of 1994, when that fund was privatized (it was bought by Blue Cross Blue Shield and is now known as the Accident Fund). Michigan is the only state that has privatized a state fund. In fact, the trend nationally has been toward creating competitive state funds—Minnesota did so in 1984, and eight other states followed during the 1990s. These state funds were created mainly because regulation of WC premium rates at low levels resulted in losses for many private insurers, which caused them to pull out of those states (see below). The relative merits of state funds and the implications of the various arrangements for providing WC have been treated at length by Thomason, Schmidle, and Burton (2001). Apart from Ohio, which has an exclusive state fund, neither Michigan nor its neighboring states has a state WC fund.

Until the early 1980s, rates for WC premia were set in every state by a regulatory process that involved several steps. First, the state would select a rating organization, which in many states was the National Council of Compensation Insurance (NCCI). (Michigan had, and

still has, an independent rating bureau.) NCCI would prescribe both a standard reporting procedure for all employers and a system of industry and occupational classification that is unique to WC. [The NCCI classification system divides all employers into five broad industry groups, then specifies occupational classifications within those industry groups. Over 500 classifications are currently used, although 71 classifications account for over 73 percent of covered payroll (Thomason, Schmidle, and Burton 2000, Appendix C). Alternative systems are similar.] Next, NCCI collected data on the benefits (or losses) paid and the premiums collected by the WC insurance carriers in the state. These data generated expected losses (or "pure premia") for each classification. A loading factor was then added to the expected losses to cover administrative expenses and profits. The result was a "manual rate" for each classification, stated in dollars per $100 of payroll. These manual rates were filed with the state WC bureau, which would approve or modify the rates. The result was a set of administered prices that all insurers had to charge. Exceptions occurred, particularly with medium and large employers that might be experience rated, but the exceptions were also regulated by the state WC bureau.

Since 1981, most states have moved to "open competition" in setting WC premia. Michigan and Illinois were early to do so (in 1983 and 1982, respectively), and Indiana did so in 1989. (Ohio has an exclusive state fund, and Wisconsin has maintained a system of administered pricing.) Open competition can take various forms, but in general it means that insurers can compete for business by offering employers different premium rates at the start of the policy period. Rates are still based on the employer's industry and the occupational classification of workers, but each insurer can now set his or her own rate. Most large employers are experience rated, and insurers frequently adjust their basic rates for different employers. Not surprisingly, insurers resisted the move to competition, but it is now well established in most states.

Interstate comparisons of WC costs are not straightforward. The main difficulty is the

need to adjust for interstate differences in industry composition, which clearly influence statewide averages of WC premia paid by employers. In addition, difficulties arise in obtaining comparable data across states, in estimating insurers' loadings for administrative expenses and profits, and in estimating the effects of experience rating and other discounts on premia ultimately paid. Nevertheless, careful interstate comparisons of WC costs do exist, and two are summarized in Table 10.

The first row of Table 10 reports adjusted manual rates that have been constructed in recent years by the Oregon Department of Consumer and Business (2002). These are weighted averages of manual rates in 50 NCCI industry-occupation categories that account for 68 percent of covered payroll in Oregon. The weights applied are derived from Oregon's industry-occupational mix, rather than the industry-occupational mix of the United States, and this is their main drawback. Essentially, they suggest the premium rate that the average *Oregon* employer would face if he or she moved to another state. Nevertheless, Oregon's industry-occupational mix is not so unlike that of the country generally that these rates cannot be used to give some notion of relative interstate WC rates.

The Oregon adjusted rates suggest that WC costs in Michigan are below those in Ohio and Illinois, and above those in Wisconsin and Indiana. (Indiana's WC costs routinely come in last or close to last in such interstate comparisons, reflecting what many WC researchers believe to be an inadequate benefit structure.) Nationally, Michigan is slightly above the median state. This is in sharp contrast to Michigan's position 20 years ago, when it was one of the highest WC cost states in the nation despite having statutory benefits that (as now) are no more generous than the median state's (Burton, Hunt, and Krueger 1985; Rence 1982).

The second row of Table 10 reports the 1995 adjusted manual rates that were constructed through a laborious process by Thomason, Schmidle, and Burton (2001, pp. 317–392). These

adjusted rates represent the premia that the average U.S. employer would face if he or she moved to a given state. Unfortunately, 1995 is the last year for which these adjusted manual rates have been constructed, but they tell a story similar to that told by the Oregon index with respect to Michigan's position compared with its neighboring states. In addition, Thomason, Schmidle, and Burton constructed a national adjusted manual rate, which suggests that Michigan's WC costs were slightly below the national average in the early and middle 1990s.

What accounts for the relative decline in WC costs in Michigan during the last 20 years? In the late 1970s, Michigan's business community complained that Michigan's WC costs were high by national standards, and evidence both at the time and subsequently supports this view (see Figure 3). After several attempts, the Michigan legislature passed major changes in WC in 1981, including comprehensive coordination of benefits, a restricted definition of disability, and managed care as a way of containing medical costs (Hunt and Eccleston 1990). Also, as already noted, the legislature adopted open competition in the setting of WC rates, which became effective in 1983. These changes appear to have brought Michigan's WC costs closer to the national average from about 1982 onward. Indeed, after an upward deviation during 1990–1992, Michigan's costs appear to have been somewhat below the national average during the mid-1990s, and the Oregon data suggest that Michigan remains close to average in WC costs.

Workers' Compensation and Workplace Safety

The National Commission on State Workmen's Compensation Laws (1972) made workplace safety one of the goals of WC. The WC system could improve workplace safety for at least three reasons. First, if it is less costly for employers than for workers to take steps that improve workplace safety, then WC improves workplace safety by placing the liability for workplace injuries on the employer. [This is the case in theory as long as it is costly for workers and employers to negotiate—that is, transaction costs exist (Butler 1999; Burton and Chelius

1997).] Second, state WC agencies and WC insurance carriers (both private and public) provide employers with loss prevention services, which may include safety consulting. Third, the experience rating of WC premia creates a financial incentive for employers to takes steps that will reduce workplace accidents and injuries.

A full discussion of workplace safety policy and the relative merits of WC versus safety regulation is beyond the scope of this chapter. However, Burton and Chelius (1997) offer a thorough review of the cases for and against government intervention through direct regulation (as with the Occupational Safety and Health Act of 1970) and mandatory WC (which entails both financial incentives and various methods of managing workplace risks). Research on OSHA has not shown that direct regulation improves workplace safety, probably because the administrative regulations that are enforced bear only a tangential relation to actual workplace risks. The evidence on WC is more mixed. Research using data from the early 20th century suggests that workplace death rates did fall after adoption of WC. However, research on whether experience rating reduces injury rates suggests relatively small impacts—Burton and Chelius (1997) conclude that experience rating "has had at least some role in improving safety for large firms." Given that, in general, only large firms are experience rated at the level of the firm, this is hardly a strong conclusion. Finally, the evidence on the effectiveness of expedients like mandatory safety committees and meetings between workers and managers is difficult to interpret; often, such measures are adopted along with other measures (like additional government safety inspections), which makes it difficult to draw convincing conclusions. In short, much remains to be done to understand the mix of policies that would deliver the optimal level of workplace safety.

Policy issues

Apart from privatization of its state fund, Michigan has made no major changes to its WC system since the early 1980s, reflecting a long period of stable or declining costs along with

benefits that were in line with those of neighboring states. The changes that have been made pertain largely to confidentiality issues surrounding release of medical information. This period of stability contrasts with many other states, which experienced sharply increased costs during the 1980s and early 1990s, along with rates that were held by state regulators below the rates needed to cover those costs (Thomason, Schmidle, and Burton 2001, chapter 2). The combination of higher costs and low regulated rates resulted in large losses for insurers and prompted many private insurers to leave states where they had previously written WC policies. The result was a series of state crises during the mid- and late-1990s in which employers, who were required to obtain insurance, could not do so.

Michigan avoided such a "crisis" because its 1981 reforms had already moved the system toward managed medical care, and because Michigan was among the early adopters of open competition in setting WC rates. Moreover, injury rates fell during the 1990s (Ruser 1999). These lower injury rates, combined with modest increases in medical costs and premia set by competition, have created a relatively problem-free and stable environment for WC in Michigan during the past 15 years.

The question in 2002 is whether this period of stability can continue in the face of medical costs that are projected to rise dramatically in the future. Existing evidence suggests that managed care has had a one-time effect on medical costs, and that those costs can be expected to resume a growth rate that outpaces that of prices generally (Chernew et al. 1998). How the WC system would respond to a resumption of high growth of medical costs is an open question. From an economic standpoint, the appropriate response to an increase in the cost of injuries is increased efforts to prevent injuries in the workplace, and the key for policy is to induce employers and workers to create an appropriately greater level of workplace safety. However, other responses can be imagined: attempts to restrict medical care, shifting costs to workers

through deductibles and copayments, and simply "absorbing" the increased costs (which would likely have other consequences, such as reduced employment and output). It seems clear that growth in medical benefits under WC is the most likely source of future controversy and policy debate for Michigan's WC system.

Conclusions

UI, Michigan Works!, and WC are unique among Michigan's programs because they replace lost earnings and deliver services to workers on a regular basis. Other programs that are intended to improve the well-being of workers do so through regulation—for example, the Michigan Department of Consumer and Industry Services oversees workplace conditions under the Michigan Occupational Safety and Health Act, and the Michigan Department of Civil Rights investigates complaints about employment discrimination. Each requires the commitment of resources for administration, but none involves the payment of benefits or delivery of services to workers on a regular basis.

Controversy is the norm for UI, Michigan Works!, and WC. UI has become increasingly contentious in the wake of welfare reform and the first recession in a decade. The program's critics offer various suggestions for reform that follow from different views of the program's goals. Some see UI as an anti-poverty program; others see it primarily as social insurance. It is not likely that the tension between these two views will be resolved soon.

Michigan Works! has faced similar tensions: Given limited resources, should the state focus on providing second-chance training to disadvantaged workers or relatively inexpensive reemployment services for job-ready workers? Is Michigan Works! providing the best possible mix of services to assist workers in gaining employment?

WC has been relatively free of controversy during the past decade, but this period of

relative calm may end soon as medical costs resume their rise. Workers' Compensation has faced such pressures in the past and has managed to adjust, albeit after a significant lag. The main conclusion drawn here is that the proper economic response to increased WC medical costs is an effort to improve workplace safety, rather than measures such as restricting medical treatment or cutting benefits.

Controversies over these programs should not obscure the fact that each has succeeded over a period of decades in gaining widespread acceptance as essential to the efficient functioning of the labor market. Arguments over the generosity of benefits and the appropriate extent of training for disadvantaged workers are secondary compared with arguments from decades past over whether these programs should even exist.

The challenge, however, is to ensure that these programs are returning benefits in relation to the cost of the programs, and it is here that Michigan has been less progressive than other states—notably Illinois and Wisconsin in the Midwest—that have acted on their own or cooperated with the federal government to design and encourage research that could add to the understanding of these programs and ultimately improve their operations. This is particularly true of UI and reemployment programs, for which Michigan's debates have centered largely around the views of political interests and have essentially neglected the broader perspective that research could offer. A willingness to accept that a program may have flaws and that all the answers do not already exist is an obvious prerequisite to admitting research as a component of policy debate. Whether Michigan will, in the new millennium, be more receptive to the role of research in debates over programs for workers is an open question.

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Table 1
UI Benefits in Michigan and Neighboring States, First Quarter 2002

	State				
	Michigan[a]	Illinois	Indiana	Ohio	Wisconsin
Minimum weekly benefit amount[b]	$82–112 ($88–118)	$51–56	$50	$85	$48
Minimum duration of benefits (weeks)	14 (15.5)	26	8	20	12
Earnings required for minimum benefit	$2,997 ($3,219)	$1,600	$2,750	$2,640	$1,590
Maximum weekly benefit amount[b]	$300 ($362)	$296–431	$312	$308–414	$324
Maximum duration of benefits (weeks)	26	26	26	26	26
Earnings required for maximum benefit	$10,976 ($13,244)	$17,069	$29,200	$10,680	$9,390
Average weekly benefit amount	$260	$286	$256	$254	$253
State average weekly wage	$714	$746	$603	$631	$600
Average weekly replacement rate	36.5	38.3	42.5	40.3	42.2
Average benefits per unemployment spell	$3,349	$4,787	$3,264	$3,400	$2,953
Average duration of benefits (weeks)	13.3	16.3	12.9	14.4	12.2
Benefit exhaustion rate (%)	28.2	37.0	36.6	27.6	20.6
Recipiency rate[c] (%)	57.5	52.6	48.4	48.6	66.1

Notes: See text for discussion.
[a] For Michigan, figures shown in parentheses indicate provisions that took effect with the April 2002 amendments to Michigan's UI law.
[b] Ranges shown for Illinois and Ohio are the result of dependents allowances, which vary with the number of dependents.
[c] The recipiency rate is the percentage of all unemployed workers receiving unemployment insurance benefits (that is, the number of "insured unemployed" divided by the number of all unemployed workers, stated as a percent).
Sources: Rows 1 through 6: U.S. Department of Labor, *Comparison of State Unemployment Insurance Laws* (2002) and author's calculations. Rows 7 through 12: U.S. Department of Labor, "UI Data Summary" (2002).

Table 2

Separation and Nonseparation Eligibility for UI Benefits, Michigan and Neighboring States, 2002

Eligibility criteria	State				
	Michigan[a]	Illinois	Indiana	Ohio	Wisconsin
Separation					
Voluntary leaving:					
Only last separation considered	no	no	yes	no	yes
Good cause restricted to work-related issues	yes	yes	yes	yes	yes
Additional reasons allowed	2	6	3	2	14
Disqualification period	duration	duration	duration	duration	duration
Earnings to requalify	7 x WBA (12 x WBA)	WBA in 4 weeks	WBA in 8 weeks	6 weeks of work	4 x WBA
Misconduct:					
Last separation only	no	no	yes	no	yes
Disqualification period (weeks)	duration	duration	duration	duration	duration
Earnings to requalify	7 x WBA (17 x WBA)	WBA in 4 weeks	WBA in 8 weeks	6 weeks of work	14 x WBA
Benefits reduced	no	no	yes	no	yes
Added penalty for gross misconduct	yes	yes	yes	yes	no
Nonseparation					
Able and available for:					
Full-time work	yes	yes	yes	yes	yes
Suitable work	yes	no	no	yes	no
Usual work	yes	no	no	no	no
Refusing suitable work:					
Disqualification period	6 weeks (13 weeks)	duration	duration	duration	duration
Benefits reduced	yes	no	yes	no	no

Notes: See text for discussion. "WBA" refers to weekly benefit amount; "duration" refers to disqualification for the duration of the current unemployment spell.

[a] For Michigan, figures shown in parentheses indicate provisions that took effect with the April 2002 amendments to Michigan's UI law.

Source: U.S. Department of Labor, *Comparison of State Unemployment Insurance Laws* (2002), UWC, *Highlights of State Unemployment Compensation Laws* (2002).

Table 3

UI Payroll Taxes and Program Solvency, Michigan and Neighboring States, First Quarter 2002

	State				
	Michigan[a]	Illinois	Indiana	Ohio	Wisconsin
Taxable wage base benefit amount[b]	$9,500 ($9,000)	$9,000	$7,000	$9,000	$10,500
Total wages of taxable employers (in millions)	$32,487	$44,762	$18,214	$34,950	$16,561
Taxable wages (in millions)	$4,326	$5,493	$2,102	$4,876	$2,877
Taxable/total wages (%)	13.3	12.3	11.5	14.0	17.6
Statutory tax rates (%)					
minimum	0.10 (0.06)	0.60	0.01	0.10	0.00
maximum	6.00 (6.30)	6.80	5.40	6.50	9.75
Average tax rate on:					
taxable wages (%)	2.6	2.1	1.1	1.9	1.7
total wages (%)	0.6	0.4	0.2	0.5	0.4
UI tax revenues (last 12 (months, in millions)	$982	$1,045	$222	$618	$446
Trust fund balance (in millions)	$2,412	$1,109	$1,316	$1,852	$1,456
High-cost multiple	0.48	0.22	0.99	0.42	0.69
Average high-cost multiple	0.65	0.31	1.31	0.54	0.92

Notes: See text for discussion.

[a] For Michigan, figures shown in parentheses indicate changes that took effect in April 2002 under amendments to Michigan's UI law.

Sources: U.S. Department of Labor, *Comparison of State Unemployment Insurance Laws* (2002a); U.S Department of Labor, "UI Data Summary" (2002b); author's calculations.

Table 4
Employment and Training Legislation and the Changing Role of the Employment Service

Legislation	Implications for ES and reemployment policy
Wagner-Peyser Act (1933)	Creation of U.S. Employment Service; emphasis on public labor exchange / placement services.
Social Security Act, Title III (1935)	Creation of the Unemployment Insurance (UI) system; ES to administer the UI work test.
Area Redevelopment Act (1961)	ES established training programs in depressed areas; increased collection of labor market information.
Manpower Development and Training Act (1962)	Further involvement of ES in training programs; reduced emphasis on traditional placement services.
Economic Opportunity Act (1964)	ES provides outreach, screening, referral for disadvantaged worker programs.
Comprehensive Employment and Training Act (1973)	Local provision of reemployment services as well as by ES; fragmentation of reemployment services.
Job Training Partnership Act (1982)	Continued local control of delivery of reemployment services.
Worker Profiling and Reemployment Services (1993)	ES administers reemployment services under UI profiling; return of emphasis on public labor exchange / placement services.
Workforce Investment Act (1998)	ES becomes locus of One-Stop Centers.

Sources: Haber and Murray (1966); Bendick (1989); Balducchi, Johnson, and Gritz (1995); Fagnoni (2000).

Table 5
Funding for Adult, Youth, and Dislocated Worker Programs under the Job Training Partnership Act (JTPA) and the Workforce Investment Act (WIA), Michigan, 1993–2002
($1,000s)

Program year	Adult	Youth	Dislocated workers	Total
1994	35,740	56,099	15,384	107,223
1995	31,310	56,040	24,554	111,904
1996	30,084	46,366	23,267	99,717
1997	21,942	25,358	26,962	74,262
1998	20,890	29,769	21,947	72,606
1999	21,705	29,069	18,768	69,542
2000	19,568	23,367	17,540	60,475
2001	24,943	25,958	15,662	66,562
2002	21,550	26,136	15,913	63,599

Notes: Program Years run from July 1 of the preceding year through June 30 of the Program Year. The summer youth program ended as a separate allocation at the end of Program Year 1999 (that is, June 30, 1999).
Source: Michigan Department of Career Development.

Table 6

Public Labor Exchange Applicants and Activities, Michigan, Neighboring States, and the United States, 1999

	State					
	Michigan	Illinois	Indiana	Ohio	Wisconsin	United States
Total applicants:	572,305	560,850	324,742	774,218	339,184	16,708,228
as % of labor force	11.2	8.7	10.4	12.7	11.2	11.9
Total applicants as % of:						
UI claimants	69.74	48.42	28.12	34.35	24.92	36.9
Veterans	16.52	10.52	13.46	15.12	8.57	10.0
Disadvantaged	1.42	5.40	17.59	55.66	0.79	12.9
Disabled	0.88	1.05	4.45	2.6	7.25	2.0
Farm workers	1.99	0.08	0.01	0.25	0.23	1.1
Percentage of all applicants receiving:						
Assessment	1.36	1.81	3.11	3.04	4.28	10.64
Job search assistance	12.26	38.54	50.26	76.15	5.53	40.13
Training referral	0.69	2.48	3.07	1.06	0.27	2.37
Job referral	2.30	29.77	34.36	35.80	57.89	40.30
Job placement	0.87	11.15	6.50	13.0	9.95	10.60
Percentage of UI claimants receiving:						
Assessment	0.26	0.35	0.46	3.08	7.88	10.70
Job search assistance	2.17	9.66	36.46	84.90	12.25	39.38
Training referral	0.21	0.92	1.58	1.27	0.61	2.82
Job referral	0.31	13.73	7.80	26.37	58.52	26.80
Job placement	0.09	3.22	4.89	5.70	13.32	5.83

Notes: See text for discussion.

Sources: *U.S. Employment Service/America's Labor Market Information System Program Report Data, Program Year 1999*. Washington, DC. U.S. Department of Labor, Employment and Training Administration, May 2001; author's calculations.

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Table 7

Public Labor Exchange Applicants and Activities, Michigan and the United States, 1995 and 1999

	1995		1999	
	U.S.	Michigan	U.S.	Michigan
Total applicants (1,000s)	18,543	655	16,708	572
UI claimants (%)	40.7	22.2	36.9	69.7
Veterans (%)	11.8	12.2	10.0	16.5
Disadvantaged (%)	14.2	na	12.9	1.4
Disabled (%)	na	na	2.0	0.9
Farm workers (%)	1.0	1.7	1.1	2.0
Percentage of all applicants receiving:				
Counseling	3.6	3.2	3.2	na
Job search assistance	26.8	na	40.1	12.3
Training referral	2.3	0.5	2.4	0.7
Job referral	43.0	16.0	40.3	2.3
Job placement	12.8	6.8	10.6	0.9

Sources: U.S. Department of Labor, "U.S. Employment Service Annual Report: Program Report Data" (Washington, DC: Employment and Training Administration, U.S. Employment Service, reports for program years 1994 and 1999.

Table 8
Distribution of Workers' Compensation Cases Involving Wage Replacement Benefits by Type, United States, 1996–1998

	Percentage of cases	Percentage of benefits
Temporary benefits (total and partial)	71	26
Permanent partial benefits	28	63
Permanent total benefits (including death benefits)	1	11

Notes: See text for discussion.
Source: Mont et al. (2002).

Table 9
Workers' Compensation Benefits in Michigan and Neighboring States, 2002

WC Benefits	State				
	Michigan	Illinois	Indiana	Ohio	Wisconsin
Medical benefits	full	full	full	90 days[b]	full
Initial physician selection	employer	worker	employer	employer	worker
Temporary total benefits:					
Waiting period	7 days	3 days	7 days	7 days	3 days
Paid retroactively after	2 weeks	14 days	>21 days	—	>7 days
As % of worker's wage	80 (after-tax)	66.7	66.7	72 (12 weeks) then 66.7	66.7
Weekly minimum $	none	101–124	50	206	30
Weekly maximum $	644	956	508	618	582
As % of SAWW[a]	90	133.3	na	100	100
Maximum duration	none	none	500 weeks	none	none
Permanent total benefits:					
As % of worker's wage	80 (after-tax)	66.7	66.7	66.7	66.7
Weekly minimum $	177	357	50	309	30
Weekly maximum $	644	956	508	618	582
As % of SAWW[a]	90	133.3	na	100	100
Maximum duration	none	none	500 weeks	none	none
Permanent partial benefits:					
Scheduled:					
Hand	215 weeks	190 weeks	$53,500	175 weeks	400 weeks
(maximum)	($138,460)	($286,896)		($108,150)	($73,600)
Eye	162 weeks	160 weeks	$43,500	125 weeks	275 weeks
(maximum)	($104,328)	($191,264)		($77,250)	($50,600)
Non-scheduled:					
As % of wage	80 (after-tax)	60	66.7	na	66.7
Weekly minimum $	179	81–97	none	none	30
Weekly maximum $	644	516	508	618	184
As % of SAWW[a]	90	na	na	100	66.7
Maximum duration	none	none	none	none	1000 weeks

Notes: See text for discussion.
[a] SAWW is the State average weekly wage.
[b] In Ohio, a worker must be examined by the Bureau of Workers' Compensation Medical Section after 90 days of temporary total compensation to determine eligibility for continued treatment and compensation.
Source: Clifton, Grover, Lake, and Loomis (2001).

Table 10

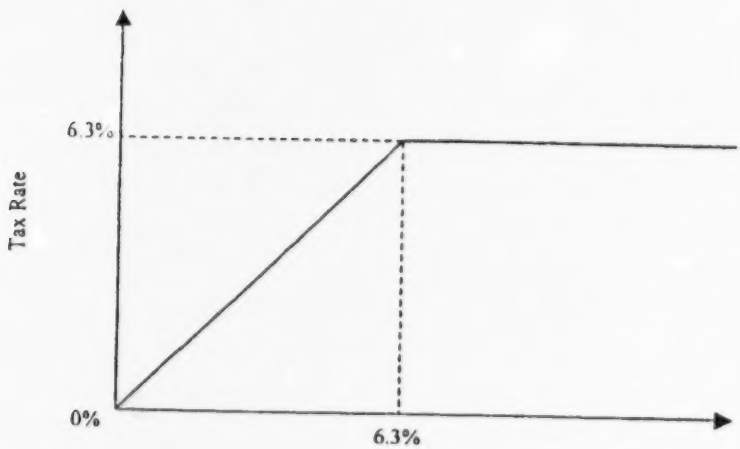
Measures of Workers' Compensation Costs in Michigan, Neighboring States, and the United States, Various Years

	State					
	Michigan	Illinois	Indiana	Ohio	Wisconsin	United States
Adjusted manual rate (per $100 of payroll, 2000)	2.40	2.62	1.32	2.89	2.01	2.26[a]
Adjusted manual rate (per $100 of payroll, 1995)	2.69	2.80	1.40	3.36	2.04	2.97[b]

[a] Adjusted manual rate of the median state.
[b] Weighted mean of all states.

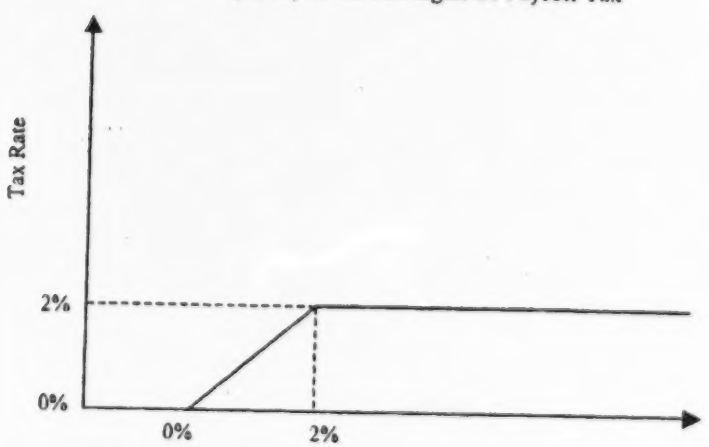
Source: Row 1 from "Oregon Workers' Compensation Premium Ranking,Calendar Year 2000" (Research and Analysis Section, Oregon Department of Consumer and business Services, March 2001); row 2 from Thomason, Schmidle, and Burton (2001, Tables C.17 and C.18).

Figure 1: Chargeable Benefit Component
(CBC) of the Michigan UI Payroll Tax



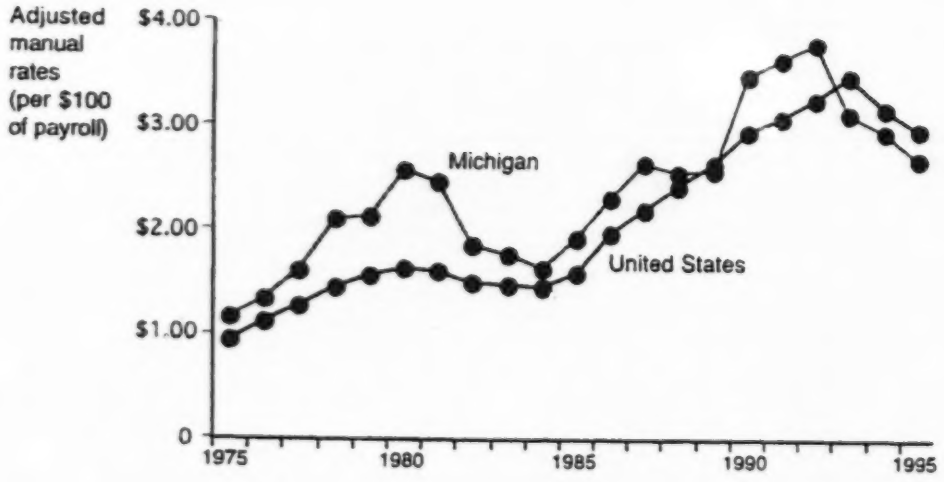
Chargeable Benefit Component
(UI Benefits Paid / UI Taxable Payroll)

Figure 2: Account Building Component
(ABC) of the Michigan UI Payroll Tax



Account Building Component
[0.25_(Required Reserves-Actual Reserves) / Total Payroll]

Figure 3
Adjusted Average Workers' Compensation Manual Rates, Michigan and the United States, 1975–1995



Source: Thomason, Schmidle, and Burton (2001, Tables C.17 and C.13).

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